ORGANIC GROWTH

INSIGHTS DECEMBER 2017

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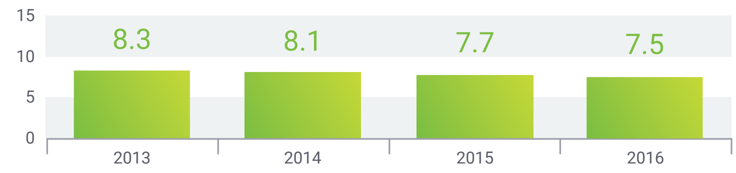
New Client Acquisition
& Organic Growth

In our most recent *State of Retail Wealth Management* report, PriceMetrix data revealed year-over-year (YOY) declines in *same store*[1] advisor production levels. This is challenging news for wealth management executives, who are increasingly turning to organic growth over aggressive recruiting to meet their overall corporate growth goals. One contributing factor to the lack of organic growth is a multi-year decline in new client additions per advisor.

This edition of **Insights**, focuses on new client acquisition. Using our granular and longitudinal industry dataset comprising 10 million North American wealth management clients, we look at how advisors who are successfully adding new relationships differ from those who are less successful, and at how firms can use these insights to grow organically. We also describe why adding new relationships now is more important than ever.

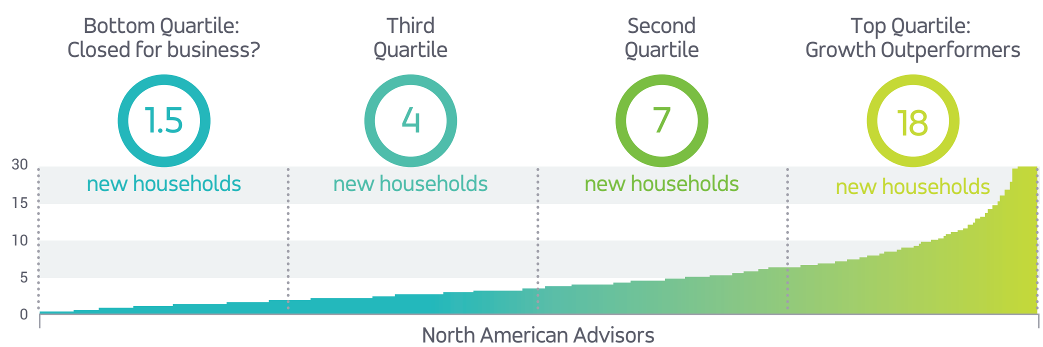
New Household Relationships per Advisor



"One of the key drivers of asset and revenue growth is the addition of new client relationships. Over the past several years, advisors have added fewer new clients, and 2016 saw a new low, with an average of just 7.5 new household relationships."

– PriceMetrix *State of Retail Wealth Management* 6th edition

Same Store Advisors' Gross New Households 2016



The trend of lower new client additions per advisor has continued into 2017. Annualizing the period up to and including September 2017, advisors added an average of 7.6 new household relationships, with top quartile advisors adding 17.4 new relationships and bottom quartile advisors adding 1.6 new relationships.

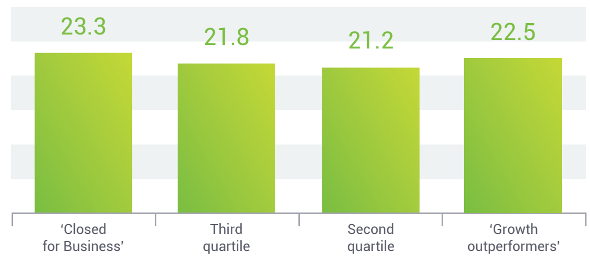
1 Growth from advisors, excluding newly licensed advisors, newly hired advisors, or departed advisors

Why are some advisors so much more successful at adding new client relationships than others? **Let's examine some hypotheses.**

The Career Stage Hypothesis

The first hypothesis posits that advisors adding higher numbers of clients are likely earlier in their career, and focused on marketing and adding clients to build critical mass in their practice. The top growing advisors do, indeed, have slightly shorter length of service – 22.5 years compared to 23.3 years for those who grew the least. However, the overall service length profile across each group of advisors is very similar.

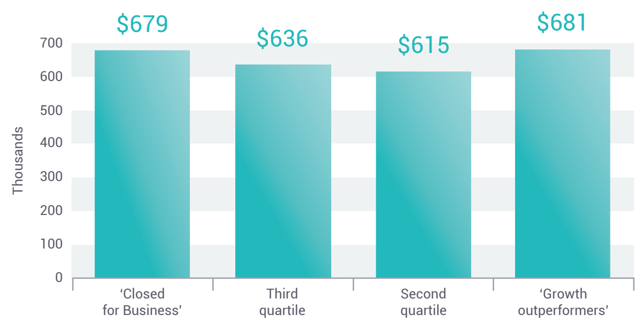
Average Length of Service



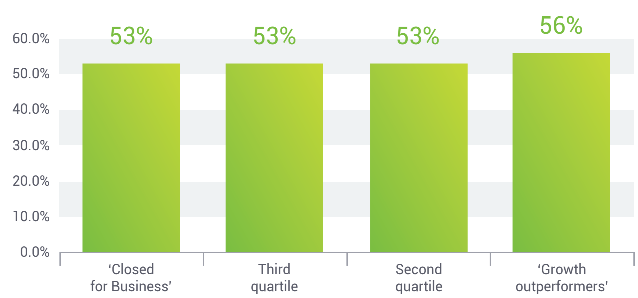
The "Any Client is a Good Client" Hypothesis

A second hypothesis is that top growers are less discriminating in terms of the clients they add to their practice. However, we found that the average new household size for both top and bottom groups is about $680,000 in investable assets, with 56% of new clients in the outperforming group below $250,000, compared to 53% for the bottom quartile. Top growers are adding similar types of clients as bottom performers; they're just adding a lot more of them.

Average New Household Investable Assets



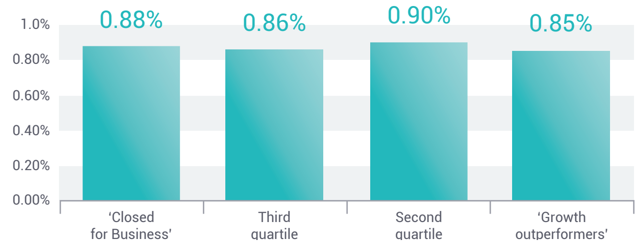
Percentage of Households Below 250K in Investable Assets



The Price Hypothesis

A common belief with respect to pricing is that advisors with lower prices – or who actively lower their price for new clients – add more new client relationships. This belief is based on the idea that pricing in wealth advice is elastic. However, we found that for households with similar invested asset levels, average price varied only slightly across the client growth quartiles. In fact, the second quartile of advisors in terms of new household additions actually had the highest pricing among all the groups.

New Household Revenue on Assets – $500K - $1MM Investable Assets



The Geography Hypothesis

Some believe that certain markets are simply more conducive to growth than others. For a straightforward analysis, we focused on branches[2], and observed that performance did not correlate to location. In fact, 99.5% of branches have an underperforming (third and fourth quartile) advisor, and 95% of branches have at least one advisor that is 'closed for business.' The tide may be rising slightly faster in certain geographies, but not to the benefit of all advisors.

What is causing the difference?

If an advisor's tenure, account minimums, price levels, and geography aren't having a material impact on the ability to add new client relationships, what is? Two plausible theories remain: advisors who are adding new clients are more effective salespeople, or they are applying a disproportionate amount of time to those business development efforts. Given the disparity in relative success, the more influential factor is likely the latter. Advisors who are attracting more new clients are trying harder.

2 Analysis focused on branches that have a minimum of eight financial advisors.

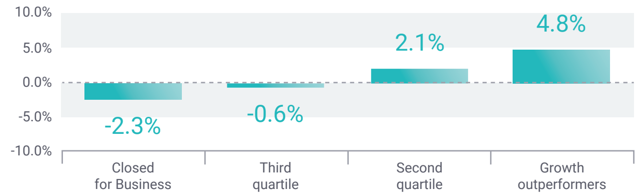
As might be expected, adding new client relationships has a direct influence on production growth rates. Advisors who added the most new relationships grew YOY by 4.8% and those who added the fewest saw their YOY production shrink by -2.3%.

However, the positive impact of adding new clients could be even more profound if it weren't for the fact that advisors who add the most client relationships also lose the most client relationships. To illustrate this, we took the same quartiles of advisors – from those who added the fewest new relationships to those who added the most – and looked at their lost client relationships.

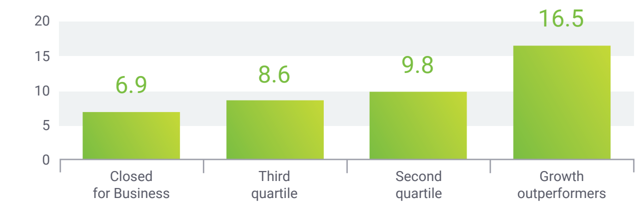
For many advisors, investing more time in adding new relationships may come at the expense of servicing existing clients. Or, it could be that advisors with deficiencies in their client servicing are forced to increase business development efforts in order to maintain production levels. To encourage advisors to focus on both new client acquisition and client retention, many firms measure and reward advisors for "net new assets." However, the drawback of using this metric in compensation is that advisors don't call upon, meet with, and service "net new assets" – they service clients. This explains why firms are increasingly updating their compensation plans to reward new client acquisition and client retention distinctly.

Adding new client relationships is more important for advisors than ever. With average client ages getting higher and (natural) client attrition rates set to increase, adding new clients is vital to offset these demographic headwinds. For advisors, putting the focus back on adding new client relationships is very timely. Past PriceMetrix research has shown that clients are more likely to switch advisors during a significant market downturn.[3] Moreover, advisors who focus on new client acquisition outperform their peers during these downturns.[4]

Year-over-Year Production Growth



Households Lost in 2016



It appears that for many advisors, investing more time in adding new relationships may come at the expense of servicing existing clients.

3 Stay or Stray, PriceMetrix, December 2013

Adding new client relationships is more important for advisors than ever.

Our research has also shown that clients are less likely to leave their advisor in the first four years of a relationship, with a spike in attrition in year four. Consequently, the best time to add new clients is in the few years leading up to a market correction as well as during a correction. As we near the end of an extended bull market, with asset levels reaching record highs, it is easy to see why advisors have been able to reduce efforts to acquire new clients. Those habits, however, could leave advisors exposed during a significant downturn, as more aggressive advisors are better prepared to capitalize on the inevitable jump in money in motion.

There is a strong relationship between new client acquisition and production growth. We have also concluded that increasing client acquisition rates is the result of increasing client acquisition efforts, and that now is a critical time to increase those efforts. For advisors working at firms that offer incentive compensation for new household acquisition, consider this a double benefit as you can achieve an even higher yield on your business development efforts. For some, getting back in the habit of growing your business might seem like an inconvenience, but remember, while you may not be actively seeking new clients, other advisors are.

4 The Anatomy of Outperformers, PriceMetrix, November 2011

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